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UNCLAS SECTION 01 OF 04 STOCKHOLM 000780

SIPDIS

STATE PASS TO USAID
STATE FOR EUR/ACE. EUR/NB AND EUR/ERA

E.O. 12958: N/A
TAGS: [EAID](#) [ECIN](#) [ECON](#) [EIND](#) [ENRG](#) [PGOV](#) [PREL](#) [SENV](#) [SW](#)
SUBJECT: SWEDEN LAUNCHES EASTERN EUROPE ENERGY EFFICIENCY
AND ENVIRONMENT PARTNERSHIP

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¶1. (U) Summary: On November 26, Sweden launched the Eastern Europe Energy Efficiency and Environment Partnership by hosting a donor conference, which raised more than EUR 90 million in pledges from European countries and the US to finance energy efficiency projects. Poloff attended donor conference to express US support for the Partnership by pledging \$1.5 million annually over the next 5 years for projects in Ukraine. In addition to securing the initial funding, the donor conference outlined the general framework of the Partnership, but most of the work on filling in the details, such as Fund rules, project selection criteria and project selection as well as country scope, remains. Country representatives were reluctant to finalize such details without consulting with respective home authorities and experts. The Partnership is off to a start, however, follow-through and continued commitment from donor and partner countries, a new government in Ukraine especially, will be crucial if the Partnership is to become a success. End Summary.
Background

¶2. (U) A Swedish initiative, the purpose of the Partnership is to allow a harmonized and effective delivery of international financial support over several years by pooling non-reimbursable contributions from a group of donors and beneficiaries, to be used primarily for supporting energy efficiency and other environmental projects. More specifically, the Partnership aims to increase competitiveness in the energy sector, enhance energy security, and positively affect the climate by reducing energy demand through energy efficiency measures. The Partnership aims to initially focus on district heating projects with a short implementation window, but environmental projects, such as in waste water or renewable energy, will also be in scope. Initial projects will focus on Ukraine, however, the Partnership envisions a future expansion to other Eastern Partnership (EaP) countries (Moldova, Belarus, Armenia, Azerbaijan, Georgia).

¶3. (U) The first half of the conference was devoted to political declarations of support and pledges, while the afternoon session was dominated by expert discussions. In her opening remarks, Swedish Minister for International Development Cooperation, Gunilla Carlsson, noted that energy use in Ukraine today is only one-third as efficient as in EU countries on average and in addition to being a concrete measure ahead of the climate negotiations in Copenhagen, the Partnership provides clear support for the implementation of

reforms in the energy sector and is key to greater energy security in Europe as a whole. Similarly, External Relations Commissioner Benita Ferrero-Waldner emphasized energy efficiency measures as a single best opportunity to improve energy security for Ukraine.⁸ Moreover, she referred to the Partnership as one not only common values, but also as a partnership for reform. She urged the government of Ukraine to do more on energy reform. Ukrainian Deputy Prime Minister Hryhoriy Nemyria noted the politically sensitive situation in Ukraine and said the government's commitment, including a financial one, to the Partnership demonstrates the Ukrainian leadership's courage and strategic view. He expressed high hopes for the success of the Partnership because the model has been already tested within the framework of the Northern Dimension, involves the participation of the EBRD and the World Bank, includes projects that are not centered on Kiev and that make municipalities stakeholders, and complement national legislation on energy efficiency targets. Poloff highlighted the work of USAID in implementing the Municipal Heating Reform in Ukraine and US efforts to develop a national municipal heating strategy in consultation with a High-Level Task Force created by the GOU at the request of several donors.

COUNTRIES PLEDGE OVER EUR 90 MILLION IN ENERGY EFFICIENCY MEASURES

14. (U) Participating countries pledged more than EUR 90 for the Eastern Europe Energy Efficiency and Environment Partnership Fund to finance specific projects. The European Commission, with EUR 40 million over the next 4 years, and Sweden, with EUR 24 million over the next 5 years, are the largest donors. Ukraine pledged EUR 10 million to match support from the EC. Norway pledged EUR 5.3 million over the

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next 5 years conditional on full participation and eligibility of all EP countries to tap the Fund's finances. Denmark pledged EUR 5 million beginning with 2011 and onwards and expressed desire to extend the Fund's finances for renewable source of energy also. The US pledged USD 7.5 million in funding over 5 years and subject to congressional approval. Estonia pledged EUR 160,000 for 2010 and expressed the possibility of an increase the following year. Latvia pledged EUR 50,000 to be made available sometime over the next 5 years. Lithuania also expressed its preparedness to contribute an unspecified amount. Other countries around the table, Finland, Poland, Romania, Czech Republic, Slovakia, and Japan expressed their support for the Partnership but did not pledge specific amounts. Japan and Slovakia highlighted the countries, bilateral support for Ukraine and Romania expressed desire that the next step in the Partnership's work will be to include the remaining five countries of the EaP. Richard Jones, Director of the Official Co-Financing Unit at the the European Bank for Reconstruction and Development (EBRD), indicated to Poloff that it will be possible to separate funding from donor countries and earmark funds for specific countries so that US funds are used specifically for Ukraine only.

HOW WILL THE FUND OPERATE?

15. (U) The representatives of the contributing parties adopted the rules of the Fund ad referendum with the details of the rules to be worked out via a written procedure. According to the rules, the contributing countries form an Assembly of Contributors, which is the governing body of the Fund. (Note: The version of the rules presented at the donor conference no longer sets a minimum contribution required for a country to become a Contributor. A version of the rules circulated prior to the conference included a clause on the minimum contribution required for a country to become a Contributor. This is significant because only Contributors have voting rights.) The Assembly is expected to meet 2-3 times a year and will be chaired by Sweden, the largest contributor, in the foreseeable future. No decision on the

date or location of the next meeting was decided. In addition to setting and supervising the implementation of the Fund,s overall strategy, approving the Fund Manager,s (EBRD) work program, reviewing the effectiveness of activities financed with the Fund,s resources, and monitoring the disbursements of Fund resources among other tasks, the Assembly decides which projects the Fund will finance. Each contributor has one vote in the Assembly and decisions are reached by consensus whenever possible. In cases where consensus cannot be achieved, a vote will be taken and a decision will be made provided a minimum of two-thirds of all members of the Assembly present vote in favor of the decision and the total value of the contributions paid to the Fund, up to the date on which a vote is taken, by such Contributors voting in favor of the decision, constitutes a minimum of two-thirds of the total value of all contributions. A decision to terminate the Fund requires unanimous consent of Contributors. Contributors representing at least one half of all contributions constitute a quorum. According to the draft Fund rules, the Assembly of Contributors may also make decision on the basis of written resolutions (a written procedure), in the absence of a meeting.

¶6. (U) A Steering Group, consisting of participating financial institutions (EBRD, World Bank Group, European Investment Bank (EIB), Nordic Environment Finance Corporation (NEFCO), Nordic Investment Bank (NIB), Ukraine, and the EC) will identify eligible projects based on agreed criteria, prioritize eligible projects, facilitate the coordination and financing of such projects, and recommend to the Assembly of Contributors projects to be funded from the Fund,s resources, including the size of grant requirements for the project. Contributing donors may take part in the Steering Group as observers and the Group may invite representatives of other organizations, as required, to supplement the existing expertise. The Group can also decide whether to allow contributions to be earmarked for specific projects. (Note: Such earmarks are not allowed unless agreed otherwise by the Group.) The rules of the Fund do not provide for a decision making mechanism for the Steering Group. Modeled on the Northern Dimension Environmental Partnership (NDEP), the

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Steering Group will operate by consensus. The Steering Group will be chaired by the EBRD. No decisions on future meetings have been announced at the donor conference.

IMPLEMENTING AGENCIES

¶7. (U) The EBRD, the EIB, the NIB, the NEFCO, and the World Bank Group are designated as Implementing Agencies responsible for financing and monitoring projects. Funding Agreements with the EBRD define the terms and conditions under which funding is being provided to support a project. The Implementing Agency also prepares a grant agreement with the project,s local recipient, and uses its own procurement rules in consultation with the EBRD.

¶8. (U) Several of the Implementing Agencies noted their ongoing projects in the Ukraine. EBRD representatives highlighted the Bank,s financing for three projects in district heating, some of which are financed through the international carbon market, and two additional projects ready for implementation as well as other projects in the proposal or technical study stages. The EIB announced it will establish a common office with the EBRD in Ukraine and emphasized the need for local partners and local as well as national government support for projects as important lessons from the NDEP. NIB has been in Ukraine since 2005 and has developed a potential pipeline of projects for implementation in cooperation with other financing institutions. The NEFCO representative also highlighted the institutions involvement in Ukraine and its relatively quick fast decision-making process that position NEFCO favorably in getting involved in pilot projects. NEFCO also noted the possibility to use the

carbon market to finance projects the region and its mandate to purchase carbon credits post 2020. Representatives from the World Bank and the the International Finance Corporation (IFC) mentioned numerous ongoing projects related to energy efficiency in the region. The World Bank and the Government of Ukraine are currently drafting an action plan that aims to reduce energy intensity by 20 percent by 2015. The IFC sees opportunities primarily in the area of residential housing efficiency and intends to role out an advisory program in this area. The IFC representative further noted the importance of avoiding market distortions as a result of grants and subsidies and listed access to municipal markets as a result of current procurement laws as potential problems.

WHAT ARE THE SELECTION CRITERIA FOR PROJECTS?

¶9. (U) The EBRD presented a draft of selection criteria linking projects to energy efficiency improvements and reforms required for sustainability in the Steering Group session. The presented selection criteria did not apply to technical assistance, but technical assistance activities could be financed by the Fund, according to the EBRD. During the ensuing discussion of the selection criteria several participants expressed objections to the selection criteria. For example, the EC representative wished to see a more general formulation of the selection criteria away from a district heating focus. The EIB representative also cautioned against narrow selection criteria that would restrict funding. Others pointed out that the calculations to determine grant sizing are skewed toward electricity rather than gas saving projects and requested a more balanced approach. Ukraine presented a separate list of criteria and requested that their suggestions are integrated into the Fund,s selection criteria. Consequently, no consensus on selection criteria was reached, leaving further deliberations to be conducted though a written procedure.

¶10. (U) The EBRD presented three ready-to-go projects, two technical assistance projects to promote energy efficiency in public and residential buildings in Ukraine and one heating project in the Zhytomyr District of Ukraine. No decision was made to fund these projects, despite Swedish support to fund them.

NEXT STEPS

¶11. (U) Inquiries regarding the business of the Fund should be directed to the EBRD as the Fund,s Manager and Richard Jones, the Director of the Official Co-Financing Unit, more

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specifically. His contact information is One Exchange Square, London EC2A 2JN, United Kingdom; Tel: 44 20 7338 7266; Fax: 44 20 7338 6942; E-mail:jonesr@ebrd.com. Poloff did not provide a USG POC for future business. Therefore, relevant USG representatives should reach out to the EBRD.

¶12. (U) Future actions to operationalize the Fund will probably include:
--Deliberations via a written procedure to agree on the rules of the Fund.
--Deliberations via a written procedure to agree on project selection criteria and funding for the three EBRD projects presented in the Steering Group.
-- Conclusion of a Contribution Agreement with the EBRD.
--Securing support of the new Ukrainian leadership after the January elections.Currently there are no plans to engage new leadership in Kiev after the January election.

¶13. (U) COMMENT: Initial deliberations in the Steering Group suggest that the US would have a voice in the Group as a Contributor, despite having an observer status only as a result of the consensus driven operational mode in the Partnership overall and the Steering Group. Poloff was told by both the EBRD and EIB representatives that, based on the

experience in the NDEP, Contributor countries will be able to actively and fully participate in the Group, including having a say in determining the selection criteria.

¶14. (U) COMMENT Continued: The Implementing Agencies expressed that the role of Implementing Agencies should be limited to present financing institutions, although such preference does not indicate an exclusive approach. Poloff noted reluctance to have USAID included as an Implementing Agency in conversations with representatives of other Implementing Agencies, although, the possibility of having USAID participate as an Implementing Agency was not precluded in response to Poloff's inquiries. The Steering Group expressed willingness to discuss the role of USAID in future meetings.

¶15. (U) COMMENT Continued: The Partnership is the mechanism to coordinate the work of donor countries and participating financial institutions to avoid overlap and duplication of efforts. For example, the EC mentioned the beginning of the implementation stage of a EUR 5 million project in the region to provide assistance with regulatory reform and legislation. Other participants did not appear to be aware of this project. There also appears to be a direct link between the EBRD proposed projects and the EBRD Sustainable Energy Action Plan developed for Ukraine. The EBRD ready-to-go projects presented in the Steering Group are also part of the EBRD Sustainable Energy Action Plan. End Comment.
BARZUN